



University of Fort Hare  
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**NKUHLU DEPARTMENT OF ACCOUNTING**  
**GENERAL ACCOUNTING 3B**  
**ACG321E**

**FINAL ASSESSMENT OPPORTUNITY**  
**NOVEMBER 2019**

<b>ASSESSORS:</b>	Ms Chuma Mjali
<b>MODERATOR:</b>	Mr G Adams (External) Mrs Dharmini Fakir (Internal)
<b>TIME:</b>	3 hour (plus 20 minutes reading time)
<b>MARKS:</b>	150
<b>PAGES:</b>	11 pages (including front page, worksheet and notes page)

**INSTRUCTIONS:**

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

Question	Marks	Suggested minutes
1	55	66
2	60	72
3	35	42
	<b>150</b>	<b>180</b>

**QUESTION 1****(55 MARKS : 66 Minutes)**

Datalog Limited ('Datalog') is an ITC solutions and services group listed on the JSE Limited. Datalog has a number of subsidiaries. You are currently preparing the consolidated financial statements of the group and have reached the stage of preparing the statement of cash flow. The following trial balance has been provided to you, relating to one of the company's subsidiaries.

Trial balances	Analzyit 1 April 2019
	R
Ordinary Share capital	(480 000)
Retained earnings (1/04/2019)	(458 048)
Trade and other payables	(127 020)
Deferred tax	(13 072)
Land	276 980
Building	317 100
Equipment	130 000
Trade and other receivables	197 980
Inventory	90 000
Bank and cash	66 080

**Analzyit Limited**

- Datalog bought a 80% interest in Analzyit Limited ('Analzyit'). Analzyit specialises in tracking buying behaviour, customer segmentation and sales strategy enhancements through predictive analytics. Datalog gained control of Analzyit on 1 April 2019. On 1 April 2019, Datalog considered the net assets of Analzyit to be fairly valued in the books of Analzyit except for the following:
  - Land was valued at R350 000.
  - Building was valued at R425 000.
- Datalog settled the consideration for their 80% interest in Analzyit on 1 April 2019 as follows:
  - In cash of R560 000;
  - By issuing 4 500 debentures to the former shareholders of Analzyit at their fair value. The debentures pay annual interest of R45 000 and will be redeemed on 30 March 2024 at R450 000. The market related rate for similar debentures at this date was 13%.

<b>Consolidated Financial statements</b>
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The following information relates to the Extracts of Datalog Group and the financial year ended 30 September 2019:

<b>Datalog Limited</b>	
<b>Consolidated statement of profit or loss for the year ended 30 September 2019</b>	<b>2019</b>
	<b>R</b>
Revenue from contracts with customers	5 826 360
Operating profit	578 000
Finance costs	(101 250)
Profit before tax	476 750
Taxation	(123 955)
Profit for the year	352 795
- Attributable to parent shareholders	264 596
- Attributable to non-controlling interests	88 199

<b>Datalog Limited</b>		
<b>Consolidated statement of financial position at 30 September</b>	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
<b>Non-current Assets</b>		
Goodwill	518 000	627 744
Property, plant and equipment	1 241 852	1 917 256
Investment property	550 000	486 010
Intangible assets	325 000	390 000
<b>Current Assets</b>		
Inventory	388 400	349 400
Trade and other receivables	655 466	633 300
Bank and cash	639 493	135 000
	<b>4 312 211</b>	<b>4 538 710</b>
<b>Equity and liabilities</b>		
Share capital	500 000	500 000
Retained earnings	1 652 174	1 491 646
Non-controlling interest	154 457	248 956
<b>Non-current liabilities</b>		
Other non-current liabilities	894 594	1 324 265
Deferred tax	184 530	179 248
<b>Current liabilities</b>		
Current portion of non-current liabilities	150 116	125 108
Trade payables and provisions	650 600	489 160
Bank overdraft	26 378	95 800
Taxation payable	105 362	84 527
	<b>4 312 211</b>	<b>4 538 710</b>

<b>Additional information</b>
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1. There have been no changes in the share capital of any of the companies in the group.
2. Depreciation on property, plant and equipment of R255 000 has been taken into account in calculating profit before taxation.
3. Equipment with a carrying amount of R50 000 was sold on 1 July 2019, resulting in a profit on sale of R30 000. All other items were sold at their carrying amounts. The profit was included with operating expenses for the year
4. The value of the goodwill had not previously been impaired; it had however lost some of its value on 30 September 2019.
5. There were no additions or disposals of intangible assets or investment properties other than is evident from the information above.

**Accounting policies:**

- Investment properties are accounted for on the fair value model in terms of IAS 40 *Investment property*.
- Property, plant and equipment is accounted for on the cost model in terms of IAS 16 *Property, plant and equipment*.
- Non-controlling interests are accounted for initially at their share of net identifiable assets.

**Taxation related matters:**

- the normal tax rate has always been 28% and 80% of capital gains are included in taxable income.

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Prepare the consolidated statement of cash flows of Datalog Limited using the indirect method for the year ended <b>30 September 2019</b> .	53	
	Presentation marks – layout and neatness	2	
<b>Total</b>			<b>55</b>

**QUESTION 2****(60 MARKS : 72 Minutes)****Background**

The abridged financial statements of Real Ltd and Jegels Ltd for the reporting period ended 30 June 2019 are as follows.

**1. Abridged financial statements**

<b>ASSETS</b>	<b>Real Ltd</b>	<b>Jegels Ltd</b>	<b>Strength Ltd</b>
	<b>R</b>		
Fixed Property	210 000	145 500	1 000 000
Plant	19 200	15 000	1 840 000
Furniture	7 500	4 500	
Investments - Jegels Ltd: 112 500 shares (Cost : R157 500 ) - Strength : ( Cost : R2 700 000 )	2 857 500	-	-
Investment in unlisted shares	-	37 500	-
Trade receivables	67 500	37 500	1 403 000
Inventories	24 000	42 000	600 000
Bank	80 775	95 625	350 000
<b><u>EQUITY AND LIABILITIES</u></b>			
Share Capital ( 300 000 / 150 000 /100 000)	300 000	150 000	2 400 000
Retained earnings	336 975	132 000	?
Dividend payable	15 000	22 500	150 000
Trade and other payables	49 500	42 000	-
Long-term borrowing	2 715 000	18 000	1 160 000

<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 June 2019</b>			
	<b>Real Ltd</b>	<b>Jegels Ltd</b>	<b>Strength Ltd</b>
Revenue	300 000	225 000	5 810 000
Cost of Sales	165 000	180 000	4 320 000
<b>Gross profit</b>	<b>135 000</b>	<b>45 000</b>	<b>1 490 000</b>
Other expenses	45 225	13 575	660 000
Dividend received	121 875	1 500	-
Interest received	7 200	-	-
<b>Profit before tax</b>	<b>218 850</b>	<b>32 925</b>	<b>830 000</b>
Income tax expenses	31 875	13 425	230 000
<b>PROFIT FOR THE YEAR</b>	<b>186 975</b>	<b>19 500</b>	<b>600 000</b>

<b>EXTRACT FROM THE STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019</b>			
	<b>RETAINED EARNINGS</b>		
	<b>Real Ltd</b>	<b>Jegels Ltd</b>	<b>Strength Ltd</b>
<b>Balance at 1 July 2018</b>	<b>180 000</b>	<b>135 000</b>	<b>1 043 000</b>
Profit for the year	186 975	19 500	?
Dividend declared and paid	(180 000)	(22 500)	(150 000)
<b>Balance at 30 June 2019</b>	<b>336 975</b>	<b>132 000</b>	<b>?</b>

### **Jegels Ltd**

- Real Ltd acquired the interest in Jegels Ltd on 30 June 2016 when the equity of Jegels Ltd was as follows:
  - Share Capital                      R150 000
  - Retained earnings                R52 500
- On 1 July 2017, Real Ltd sold non-depreciable fixed property with an original cost price of R75 000 to Jegels for R85 500. The property is classified as property, plant and equipment and is still in the possession of Jegels Ltd. Ignore tax on this sale.
- Jegels Ltd purchased some inventory from Real Ltd at cost price plus 25%. Total inventories to the value of R112 500 were sold to Jegels Ltd by Real Ltd during the current financial year. All this inventory had been sold by year end by Jegels.

<b>Strength Ltd</b>
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Real acquired 70% of the ordinary shares in Strength Ltd on 1 January 2019 for R2 700 000 on which date Strength Ltd became a subsidiary company. The fair value of the 30% non-controlling interest at 1 January 2019 was R1 300 000.

On acquisition date, Strength Ltd's identifiable assets and liabilities were considered to be fairly valued.

Strength Ltd supplies Real Ltd with inventory for resale at a mark-up of 25% on cost. The inventory is sold within two months of purchase by Real Ltd. Details of these inventory transactions for the current year are as follows:

Total sales from Strength Ltd to Real Ltd (evenly throughout year)	R180 000
Inventory bought by Real Ltd from Strength Ltd	
On hand at 30 June 2018	R10 000
On hand at 1 January 2019	R13 750
On hand at 30 June 2019	R15 000

<b>Additional information</b>
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- Assume a company tax rate of 28% is applicable
- Profit in companies are earned evenly throughout the year
- Real Ltd recognised the equity investment in Jegels Ltd and Strength Ltd in its separate financial records at cost.
- Real Ltd elected to measure any non-controlling interest in an acquiree at their proportional share of the acquiree's identifiable net assets at acquisition date.
- Goodwill has not been impaired in the current or prior years.

QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
(a)	Prepare the <ul style="list-style-type: none"> <li>- consolidated financial statement of comprehensive income,</li> <li>- consolidated statement of changes in equity and</li> <li>- statement of financial position limited to the Asset section (The equity and liabilities section is not required)</li> </ul> for the Real Ltd Group for the financial year ended 30 June 2019. <ul style="list-style-type: none"> <li>- Notes and comparatives are not required</li> </ul>	<b>58</b>	
	<b>Presentation marks</b>	<b>2</b>	
<b>Total</b>			<b>60</b>

**QUESTION 3****(35 marks : 42 Minutes)****PART A**

On 1 January 2018, Imbokodo Ltd purchased 1 000 10% debentures for R1 000 each at a discount of 5%. Imbokodo Ltd incurred R5 000 transaction costs with the purchase. The interest on debentures is payable annually in arrears. The debentures are redeemable at par on 31 December 2021 and management are planning to hold the debenture until maturity.

<b>REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
i)	Discuss how you would classify and measure the above debentures in the books of Imbokodo Ltd in terms of IFRS 9 <i>Financial instruments</i> .  - No calculations are required	<b>8</b>	
ii)	Prepare the journal entries to account for the debentures for the year ended 31 December 2018.	<b>10</b>	
	<b>Presentation and communication</b>	<b>1</b>	
<b>Total</b>			<b>19</b>

**PART B**

Kuyasa Ltd is a building contractor and contracts with a customer to construct a new factory building as below:

	Amount (Incl VAT)
Plant	R3 000 000
Construction material	R800 000
Modification services of the plant	R500 000

The design of the factory building incorporates specialised plant for the customer's operations. The plant is sold separately by three different vendors for R3 200 00 and can function without being incorporated into the construction of a building. The necessary building materials are sold separately by construction wholesalers for an estimated R750 000.

The contract has a 1-year warranty:

- The terms of the warranty are such that in the event that any defects are found in the plant, Kuyasa Ltd will be responsible to fix these defects at no additional cost to the customer.
- This is the first time Kuyasa Limited has entered into a transaction with a warranty. And thus has no past experience on which to assess the probability if returned.

REQUIRED		Marks	
		Sub-total	Total
i)	Discuss and identify the performance obligation/s within the contract. (Ignore the warranty in your discussion).	8	
ii)	Discuss how Kuyasa should treat the warranty in its records as described in <i>IFRS 15 – Revenue from contracts with customers</i>	7	
	<b>Presentation and communication</b>	1	
<b>Total</b>			<b>16</b>



**This page is provided for you to make notes on during reading time. It is NOT to be handed in and it must therefore not form part of your final solution.**